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SENSITIVE
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TAGS: ETRD ECIN ECON PGOV PREL NI
SUBJECT: NIGERIA: TRADE POLICY REFORM PROMISES BUT LITTLE ACTION

REF: A. ABUJA 893
¶B. ABUJA 870
¶C. ABUJA 817
¶D. ABUJA 760

SENSITIVE BUT UNCLASSIFIED - NOT FOR DISTRIBUTION OUTSIDE USG

¶1. (SBU) Summary. The Government of Nigeria's (GON) trade policy has seen few reforms lately, with banned products, high tariffs and incomplete implementation of the Economic Community of West African States (ECOWAS) Common External Tariff (CET). The use of a combination of tariff and non-tariff barriers is a standard import substitution policy; however, GON officials have contended that full implementation of the CET, removal of, some, if not all, of the 46 import bans and a reduction in tariffs will take place soon. The recent decision to temporarily remove tariffs on rice was a positive step forward. CET negotiations were not concluded by December 31, 2007 as earlier scheduled, because of wrangling among ECOWAS member states on Nigeria's proposed fifth tariff band (50% tariff on these products) and Type B exceptions. Notwithstanding this, the GON contends it remains committed to the CET. The GON provides export incentives to exporters to enhance the contribution of the non-oil sector to the national economy. Septels will report on the Ambassador's recent discussions on Nigeria's trade regime with the Ministers of Commerce and Industry and Agriculture. End summary.
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CET Update
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¶2. (U) In October 2005, the GON began to implement the ECOWAS CET, reducing the number of tariff bands in Nigeria from twenty to five. The five tariff bands are: zero duty on capital goods, machinery and essential drugs not produced locally; 5 percent duty on imported raw materials; 10 percent duty on intermediate goods; 20 percent duty on finished goods; and 50 percent duty on goods in industries that the government seeks to protect. The proposed 50 percent tariff applies to 17 product categories or 113 tariff lines, representing approximately 9.3% of regional imports from the rest of the world, but not all items currently subject to import bans. Items deemed to be necessities such as anti-retroviral drugs for the treatment of patients with HIV/AIDS are imported duty-free. GON officials contend they remain committed to full implementation of the CET, will continue good faith negotiations, and see the CET as part of the GON's ongoing economic reforms to improve its trade and investment environment and the harmonization of trade in the sub-region.
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Tariffs Number Two Source of Government Revenue
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¶3. (SBU) Tariffs provide the GON with its second-largest source of

revenue after oil exports. Excessively high tariffs, a non-transparent tariff regime, frequent policy changes, and the usually unclear interpretation of government directives by the Nigerian Customs Service make importing difficult and expensive, and sometimes create severe bottlenecks for commercial activities. Many importers complain that the tariffs presently charged are excessively high, and the GON uses arbitrary reference prices at times. Many importers resort to under-valuing and smuggling to avoid paying full tariffs. Some of the products that attract very high tariffs include sparkling wine (100 percent); rice (109 percent) and tomato puree (50 percent). (Note: The tariff on rice was temporarily suspended for six months because of the global food crisis and high prices in Nigeria in particular by Nigeria's Federal Executive Council (FEC) on May 7, 2008 - reftels A & B. End Note)

¶4. (SBU) A study by the Carana Corporation that was funded by USAID reported that production has doubled in the Nigerian rice sector, in the last five years, but this increase has come at a significant cost to consumers. In addition, it does not appear that producer prices have benefited commensurately. In comparing Nigeria to Senegal, due to market inefficiency and the capture of rents in the Nigerian economy, the price paid to the producer is almost the same in Senegal (26 cents per kilo) and in Nigeria (21 cents per kilo); however, consumers pay 50% more in Nigeria (78 cents per kilo) than in Senegal (45 cents per kilo). (Comment: Promoting agriculture based on tariffs alone rarely leads to successful growth of agricultural industries. Policies that are aimed at reducing the gap between producer and consumer prices will have a more stimulating effect on the industry than imposing a high tariff that does not necessarily benefit farmers. End Comment.)
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Non-Tariff Barriers (Import Prohibition)

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¶5. (U) Despite continuing towards the adoption of the CET, the GON continues to ban the importation of 46 products - citing the need to protect local industries. Items on the import prohibition list include maize (corn); bird's eggs; cocoa butter, powder, and cakes; millet; pork; beef; live birds; frozen poultry; fresh and dried fruit; wheat flour; sorghum; vegetable oil and fats; cassava; bottled water; biscuits; spaghetti; noodles; fruit juice in retail packs; beer; non-alcoholic wine; and alcoholic beverages. These banned products violate Nigeria's World Trade Organization (WTO) commitments, but other WTO members have not challenged the GON within the WTO framework.

¶6. (SBU) On July 2, Ikechukwu Oguejiofor, Acting Director of the Fiscal Policy of the Ministry of Finance, informed EconSpec that the GON was making concerted efforts to substantially reduce the number of banned items. Oguejiofor said that the Ministry of Finance would publish the 2008 - 2012 Tariff Book in one month, and the number of banned items will be reduced substantially. (Note: Ministers of Agriculture and Commerce and Industry confirmed this to Ambassador in meetings on June 24 and June 10. End Note) Badeji Abikoye, Director of Trade at the Ministry of Commerce and Industry, also corroborated Oguejiofor's statement regarding changes to the upcoming Tariff Book, and underscored that the Ministers of Finance and Commerce and Industry have been collaborating to ensure that most of the bans are lifted.
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Customs Barriers

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¶7. (U) The Nigerian Customs Service (NCS) is responsible for implementing trade policy at the various ports. NCS mismanagement has led to port delays, non-transparent valuation mechanisms, erratic application of government policies, high berthing and unloading costs, and corruption that have posed serious obstacles to trade. President Yar'Adua's administration has promised to implement a comprehensive customs reform that would drastically reduce the time for clearing goods at the ports from the present two weeks to two days. (Note: Despite the GON commitment to improve transparency and processing, relatively little has been done in that direction. End Note)

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Export Subsidies

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¶8. (SBU) The GON through its ministries and other agencies administers various export incentives such as tax concessions, export development funds, capital asset depreciation allowances, foreign currency retention programs, Free Trade Zones, and Export Processing Zones. The agencies responsible for the implementation of export incentives include the Nigerian Export Promotion Council, Ministry of Finance, Ministry of Commerce and Industry, Nigeria Customs Service, Central Bank of Nigeria, and the Nigerian Export Processing Zone Authority. Funding constraints, misrepresentation by exporters and erratic application of regulations limit the effectiveness of these programs.

¶9. (U) In 2007, President Yar'adua ordered the suspension of all waivers on taxes and import duties, because such waivers resulted in large losses to government revenue intake and were not bolstering manufacturing productivity. Currently, the Export Expansion Grant (EEG) is the only export subsidy available to exporters because of the GON's rescission of all other export subsidies after it began implementing the CET in October 2005. The GON argued that the CET automatically favors manufacturers through its lower tariffs on capital goods and raw materials.

¶10. (U) The EEG is a scheme that provides a financial inducement to exporters who have exported a minimum of 500,000 naira ($4,273) worth of semi-processed and finished products. Under the EEG, exporters of processed commodities and unprocessed mineral and agricultural commodities are entitled to a specified percentage grant on their export turnover, subject to the confirmation receipt of repatriation of export proceeds from the Central Bank of Nigeria. The percentage payment received by exporters under the EEG are in two categories -- Category A (40 percent for intermediate and fully manufactured products with a high value addition); and Category B (5 percent for all other exports not classified under Category A).
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Industry Support Committee

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¶11. (SBU) The GON setup an Industry Support Committee (ISC) in 2007 to investigate and audit waivers, tax concessions and export subsidies granted by the GON to manufacturers and importers, assess their impact on GON fiscal objectives. Contacts have reported that the ISC has completed its assignment and its findings were submitted to President Yar'adua. It is expected that the Federal Executive Council (the Cabinet) will discuss the recommendations contained in the ISC report in the next few months.
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Comment

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¶12. (SBU) On the global level, examples of protected infant industries achieving global competitiveness under high tariff protections schemes are scarce. Nigeria's import substitution strategy followed by most developing countries from the 1960's to the 80s has not been a best practices success story. Despite Nigeria's large market and significant trade restrictions, manufacturing sectors - excluding oil-related activities - have stagnated and even declined. Tariffs and bans are protecting existing activities but not as a bridge to greater competitiveness or the emergence of new ones.

¶13. (SBU) Economic growth in Nigeria should be built on three important pillars: (1) efficient administration, (2) developed infrastructure (transport, communications and energy) and (3) education. Current tariff protections have impeded market pressures that could drive investment and reform in governance, infrastructure and education. If Nigeria chooses to pursue a fifth band it needs to also put in place policy initiatives facilitating access to capital markets, infrastructure and energy supplies that will support growth of private enterprise. A Ministerial Monitoring Committee, at its meeting held in Nouakchott on February 21, 2008,

requested that the ECOWAS and West African Economic and Monetary Union (WAEMU) Commissions conduct a study on the impact of creating a fifth band, determine its rate and the list of products that it will cover among other issues relating to protection instruments to complement customs duties, taking into account ongoing experiences in the region and World Trade Organization provisions.

¶14. (SBU) Import bans, high tariffs and CET accession issues have been ongoing for several years and the GON has previously promised to address them. In October 2004, former President Obasanjo in his address to the GON National Assembly on the 2005 budget said Nigeria would implement the CET by July 2005 and rescind all import bans by December 31, 2007. Minister of Commerce and Industry Ugwuh informed USG officials during the 2007 TIFA Council meeting in Abuja that though he is in support of removing the bans achieving that goal has political undertones. Continued USG engagement during the July 14-15 AGOA Forum in Washington and the fall TIFA Council Meeting provide opportunities to advocate for further reforms.

¶15. (U) Septels will report on the Ambassador's recent discussions on Nigeria's trade regime with the Minister of Commerce and Industry and the Minister of Agriculture, including the establishment of working groups under the U.S.-Nigeria Framework for Partnership to the assist the GON in its transition to a more productive trade regime.

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